



PART IV: OTHER ACCOMPANYING INFORMATION

ARC PERFORMANCE MEASURES

As an investor in grassroots economic development, ARC's performance is in large measure dependent on the achievements of its local, state, and regional partners. To measure its effectiveness, ARC will look at the following four areas of performance:

- *Leverage.* ARC will measure additional public and private financial and technical support attracted by Commission investments.
- *Jobs.* ARC will gauge its involvement in job-generating programs by both the quantity and the quality of jobs created.
- *Employability.* ARC will measure improvements in high school graduation rates, increases in college attendance and graduation rates, the number of participants completing workforce training programs, and the number of children served in early childhood education programs.
- *Infrastructure Development and Connectivity.* ARC will look at the number of citizens served; connections made between modes of transportation, particularly between railways and highways; and highway miles opened to traffic.

PERFORMANCE GOALS

Assuming ARC's annual funding remains at the current level, the Commission is committed to the following six-year and ten-year performance goals:

Six-Year Performance Goals

- 120,000 jobs will be created or retained.
- 120,000 households will be served with new or improved water and sewer infrastructure.
- 120,000 citizens of the Region will benefit from enhanced education and job-related skills.
- 150 miles of the Appalachian Development Highway System will be opened to traffic (based on the current level of transportation funding from the U.S. Congress).

Ten-Year Performance Goals

- 200,000 jobs will be created or retained.
- 200,000 households will be served with new or improved water and sewer infrastructure.
- 200,000 citizens of the Region will benefit from enhanced education and job-related skills.
- 250 additional miles (net increase) of the Appalachian Development Highway System will be open to traffic (based on the current level of transportation funding from the U.S. Congress).

The Appalachian Regional Commission tracks the programs it supports and reports its findings regarding performance on a yearly basis. ARC's current performance and accountability report can be found on the ARC Web site at www.arc.gov.



APPALACHIAN
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*A Proud Past,
A New Vision*

Office of Inspector General

December 2009

MEMORANDUM FOR FEDERAL CO-CHAIR POPE

FROM: Clifford H. Jennings
Inspector General

SUBJECT: Management and Performance Challenges Facing the
Appalachian Regional Commission

The Reports Consolidation Act of 2000 requires we provide you with our perspective on the most serious management and performance challenges facing the Commission for inclusion in the Commission's annual performance and accountability report. Our compilation of these challenges was derived from our consideration of audit reports, open recommendations, discussions with contract auditors, ARC personnel, and new project undertakings.

This year ARC faces many of the same challenges that were reported last year but some of the details have changed. In addition, we became aware of a significant new challenge resulting from our work in the grants management area. See discussion below.

The financial reporting improvements we noted this year addressed many of our concerns under Challenge, *Compliance with OMB Circular A-136*. We noted more timely and accurate financial reporting. The FY 2008 financial statement reports were issued two months earlier than the previous year's reports, and we anticipate much earlier report issuance for 2009. In addition, the financial statement data was more accurate; the auditors were able to issue a qualified opinion, with an exception only for a child agency report. In the prior fiscal year, 2007, the auditors were only able to disclaim an opinion.

Management has continued to address the Challenge, *Upgrading agency IT support infrastructure, agency accounting and grant management system*. Management contracted with IT personnel to provide additional staffing and a GSA contract was executed to provide a new accounting platform. In addition, a new IT policy manual was written and adopted, an IT help desk tracking system was implemented, the grants management system documentation was improved and there have been some improvements in IT security. On the other hand, ARC has begun implementation of a new accounting platform and needs to ensure that its infrastructure is appropriate for the system and that IT security concerns identified recently, in the 2008 financial statement audit, are addressed.

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Challenge 1 – Upgrading agency IT support infrastructure, agency accounting and the grant management system

ARC continues to undergo a transformation in its IT support as it transfers its accounting system operations to outsourced support and shared services, which are offsite and maintained by GSA. The challenge is to effectuate a smooth transition while maintaining the integrity of the accounting data and ensuring appropriate processes are in place for the continual and timely transfer of data and processing of transactions while obtaining meaningful, useful and timely information and reports from the system.

Coupled with these efforts are ARC's ongoing efforts to bring to fruition a fully functional grants management system. The system was to interface with ARC's accounting system to ensure accuracy of its data, but which will now require an alternate methodology to ensure its accuracy.

Always underlying the surface of IT operations is its security. ARC made strides addressing some security issues identified in a report issued in 2007, but many additional weaknesses were recently identified in the financial and grant management systems. The issues included: security management, access control, configuration/change management, segregation of duties, and contingency planning. A detailed risk assessment needs to be completed and an evaluation made in terms of likelihood and magnitude of risk related to the deficiencies cited, and for an appropriate corrective action plan to be implemented.

Challenge 2 – Grant management oversight

We completed an inspection of ARC's grant management activities and found significant weaknesses in ARC grant oversight and administrative processes. The inspection report made 17 recommendations to address the development and enforcement of policies (and other rules) and for development of grant monitoring plans, improving supervisory oversight, training, metric reporting, documentation, file organization, tracking grantee characteristics, and controls to safeguard grant files. To effectuate these changes, continued training is required, grant management system changes need to be made, a grant policy manual needs to be drafted and implemented and proper attention paid to grant management requirements.

Challenge 3- Compliance with OMB Circular A-136

The financial statement audit for FY 2008 was still very late for the second year in a row and was not finalized until May 2009 (issued shortly thereafter). In addition, despite the extra time and effort by both the Commission staff and the auditors, the audit firm was unable to express an unqualified opinion. The financial statement for FY 2009 appeared to be on schedule. However, certain information from one of the child agencies will not be provided timely, and the audit report will again be late.

An ongoing challenge for ARC is to comply with OMB Circular A-136. ARC is currently attempting to satisfy Section 3 Financial Section; II.4.2 Q&As; Question 5 of OMB Circular A-136, Financial Reporting Requirements, under which a parent agency (transferor of the appropriation) must report all budgetary and proprietary activity in its financial statements, whether that activity is material to its child agencies or not. ARC has parent relationships with seven departments and agencies to each of whom it transfers its appropriated funds for purposes of accomplishing economic development activities in the Appalachian Region, largely through Federal grants. These activities are authorized by the Appalachian Regional Development Act of 1965, as amended, 40 U.S.C. 14101-14704. ARC has significant parent/child relationships with the following departments/agencies:

- Department of Transportation
- Economic Development Agency of the Department of Commerce
- Rural Development of the Department of Agriculture
- Department of Education
- US Army Corps of Engineers

ARC transfers a large and material portion of its appropriation annually to these child agencies to carry out its mission; however, the transfers are relatively minor for the child agency receiving them and are not material to their financial reporting. The child agency auditors do not audit at the materiality level needed by ARC and reports of activities and balances are not made a priority by the child agencies. ARC needs to continually work with these agencies to ensure timely and accurate data is received.

In addition, ARC has had difficulty reconciling its proprietary activities to its budgetary records and has sought help from an outside/contacted accountant firm, but this issue has not been fully resolved. Management hopes that the transfer of its accounting records to a GSA shared services accounting platform will resolve this reconciliation issue but continued attention to this problem, we believe, will be needed.

Finally, ARC needs to develop a method to properly record an accrual for its grants, which affect its reported expenses and obligations, and is more fully described in ARC's most recent financial statement audit. ARC management plans to develop a grant accrual methodology based on historical data and which will take several years to develop.

Other Accompanying Information
